

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Flint District Library</b>	County <b>Genesee</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>8/30/04</b>	Date Accountant Report Submitted to State: <b>11/5/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

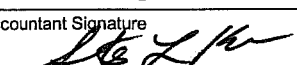
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Lewis &amp; Knopf, PC</b>			
Street Address <b>5206 Gateway Centre - Ste 100</b>		City <b>Flint</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48507</b>	
		Date	

FLINT DISTRICT LIBRARY

FLINT, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2004

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*Lewis & Knopf, CPAs, P.C.*

"Serving You with Trust and Integrity"

August 30, 2004

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Flint District Library

We have audited the accompanying financial statements of the governmental activities of Flint District Library, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Flint District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Flint District Library as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2004, on our consideration of the Flint District Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of the *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003, along with all related statements and interpretations.

The management's discussion and analysis on pages II - V and budgetary comparison information on page 12 are not required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Flint District Library's basic financial statements. The accompanying other supplementary information, as identified, in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*  
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

FLINT DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2004

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USING THIS ANNUAL REPORT

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- \* The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- \* The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- \* The third column presents the Library's operations on a full accrual basis, which provides both long, and short-term information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library on a longer-term view of the Library's finances.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

CONDENSED FINANCIAL INFORMATION

The following table below shows key financial information in a condensed format:

<u>ASSETS</u>	
Current Assets	\$1,458,182
Non-Current Assets	395,611
	<hr/>
<u>TOTAL ASSETS</u>	<u>\$1,853,793</u>
 <u>LIABILITIES</u>	
Current Liabilities	\$174,813
Non-Current Liabilities	244,189
Total Liabilities	<hr/> \$419,002
 <u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	395,611
Restricted - Expendable Endowment	432,244
Restricted - Non-Expendable Endowment	20,000
Unrestricted	586,936
Total Net Assets	<hr/> \$1,434,791
 <u>TOTAL NET ASSETS</u>	 <u>\$1,853,793</u>
 <u>REVENUE</u>	
Property Taxes	\$4,701,101
Other	617,968
Total Revenue	<hr/> \$5,319,069
 <u>EXPENDITURES - LIBRARY SERVICES</u>	 <u>5,784,532</u>
 <u>CHANGE IN NET ASSETS</u>	 <u>(\$465,463)</u>

FLINT DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2004

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THE LIBRARY AS A WHOLE

- \* The Library is reporting financial statements this year that meet the requirements of GASB 34. The primary change requires reporting all assets at full cost less depreciation expense.
- \* As a result of this change, the Library reports net assets of \$1,434,791 this year on a full accrual basis, as compared to fund balances of \$1,291,572 on the modified accrual basis.
- \* The Library's primary source of revenue is from property taxes. For 2004, total tax collections were \$4,701,101. This represents approximately 84 percent of total revenue.
- \* Salaries and fringe benefits are the largest overall expenditure of the Library. For 2004, this expenditure was \$3,590,965, representing 62.1 percent of the Library's total expenditures. The addition of six full time employees and one part time employee, plus an average three percent increase in salaries contributed to an overall increase of \$341,616 over the previous year. Additionally, the compensation package for the retiring director contributed significantly to this increase.
- \* Library materials of \$522,668 are the second largest overall expenditure of the Library, representing 9.1 percent of the Library's total expenditures.
- \* The Library expended \$150,583 for a significant technology upgrade, which included computer hardware and software and wiring to be utilized by the public.
- \* Total expenditures for the entire year under the modified accrual method of accounting were \$5,731,263.
- \* The Library's conversion to meet GASB 34 standards, which includes capitalization of Library owned assets and associated depreciation expense, as well as the increase in compensated absences expense, is reflected in the Statement of Activities on page 2 of this financial report.

THE LIBRARY'S FUND

Our analysis of the Library's General Fund is included on pages 1 and 2 in the first column of the respective statements. The fund column provides detailed information about the General Fund on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, - not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. The Library's only fund is the General Fund.

- \* The fund balance of the General Fund decreased by \$465,463 for the year. This represents expenses greater than revenue.
- \* The Library Board has designated funds established for budget stabilization see Note 9.

LIBRARY BUDGETARY HIGHLIGHTS

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in professional services, capital outlay, operating supplies, and repairs and maintenance expense.

FLINT DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

**GENERAL FUND BUDGET VS. ACTUAL**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final <u>Budget %</u>
Revenues	\$4,982,500	\$4,982,500	\$5,319,069	0.00	6.76
Expenditures	5,384,726	5,607,726	5,731,263	(3.98)	(2.20)
<b><u>TOTAL</u></b>	<b><u>(\$402,226)</u></b>	<b><u>(\$625,226)</u></b>	<b><u>(\$412,194)</u></b>		

**Original vs. Final Budgets**

Revenues

Revenues budgets were unchanged.

Expenditures

Differences between the original budget and the final amended budget totaled an increase of \$223,000 and can be briefly summarized as follows:

- \* Increase of \$174,000 in administrative activities
- \* Increase of \$30,000 in library & program activities
- \* Increase of \$19,000 in capital outlay activities

**Actual Results vs. Final Budgets**

Revenues

During the year budgetary estimates for revenue underestimated what was actually received by \$336,569. The main reason was the activity related to Grants and Memorials as well as Gifts and other contributions that, based on their variability, are not budgeted for, in the amount of \$202,280. In addition, Library fines and fees were higher than estimated by \$35,807, State sources were \$11,054 higher, property taxes exceeded the budgeted amounts by \$76,101, miscellaneous income by \$6,128, and investment interest exceeded budgeted amounts by \$5,198.

Expenditures

During the year budgetary estimates for expenditures exceeded what was actually spent by \$123,537. As noted above, the library did not budget for the activity in the grant and memorial area, due to its variability, which accounted for \$84,865 of additional expense. In addition, major expenses in relation to the Library acquiring property from the Board of Education were higher than originally planned, specifically in the areas of attorney fees in the amount of \$56,652. Utilities were higher than expected by \$27,491 as a result of higher prices of natural gas.

Grants and Memorials

Due to the Library's aggressive grant activity and the uncertain nature of grants, budgets have not been formalized in the general fund, but are addressed on a grant-by-grant basis.

FLINT DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

As a result of GASB 34 implementation, the library adopted a capitalization policy of \$5,000. Prior to the implementation of GASB 34, books and materials were capitalized over 5 years. In order to fully implement the new policy, we restated the capital assets for this new capitalization policy. At the end of the fiscal year, the Library had \$396,000 invested in works of art, computers and accessories, furniture and equipment, and vehicles. The works of art consists of the Audubon Book, which does not depreciate, but fair market value may be assessed periodically.

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Works of Art	\$200,000	\$0	\$0	\$200,000
Computers and Accessories	472,747	0	0	472,747
Furniture and Fixtures	260,927	0	0	260,927
Vehicles	91,625	0	0	91,625
Totals at Historical Cost	<u>\$1,025,299</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,025,299</u>
Less: Accumulated Depreciation				
Computers and Accessories	(341,840)	(43,387)	0	(385,227)
Furniture and Fixtures	(132,943)	(25,205)	0	(158,148)
Vehicles	(84,542)	(1,771)	0	(86,313)
Total Accumulated Depreciation	<u>(\$559,325)</u>	<u>(\$70,363)</u>	<u>\$0</u>	<u>(\$629,688)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$465,974</u>	<u>(\$70,363)</u>	<u>\$0</u>	<u>\$395,611</u>

No significant capital asset events occurred during the current year.

DEBT

A summary of the debt outstanding at the Library is as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
<u>Governmental Activities:</u>				
Compensated Absences	<u>\$269,486</u>	<u>\$0</u>	<u>\$17,094</u>	<u>\$252,392</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library. The Library estimates that vacation pay of \$1,128 and sick pay of \$7,075 will be paid within the next year.

MILLAGE RATES

On August 6, 2002, the voters of the district approved a renewal of the 2.9 mills tax. This represents 2 mills in perpetuity and .9 mills until 2011.

In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have questions about this report or need additional information, contact the Finance and Human Resource Administrator at Flint District Library, 1026 E. Kearsley, Flint, MI 48502.

FLINT DISTRICT LIBRARY  
GOVERNMENTAL FUND BALANCE SHEET/ STATEMENT OF NET ASSETS  
JUNE 30, 2004

	General Fund - Modified Accrual Basis	Adjustments (Note 11)	Statement of Net Assets - Full Accrual Basis
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$822,986	\$0	\$822,986
Cash - Restricted	452,244	0	452,244
Accounts Receivable	166,295	0	166,295
Prepaid Expenses	16,657	0	16,657
Total Current Assets	\$1,458,182	\$0	\$1,458,182
<u>NON-CURRENT ASSETS</u>			
Capital Assets	0	1,025,299	1,025,299
Less: Accumulated Depreciation	0	(629,688)	(629,688)
Total Non-Current Assets	\$0	\$395,611	\$395,611
<u>TOTAL ASSETS</u>	<u>\$1,458,182</u>	<u>\$395,611</u>	<u>\$1,853,793</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	\$60,286	\$0	\$60,286
Accrued Expenses	54,717	0	54,717
Deferred Revenue	51,607	0	51,607
Current Portion - Long-Term Debt	0	8,203	8,203
Total Current Liabilities	\$166,610	\$8,203	\$174,813
<u>NON-CURRENT LIABILITIES</u>	<u>0</u>	<u>244,189</u>	<u>244,189</u>
Total Liabilities	\$166,610	\$252,392	\$419,002
<u>FUND BALANCE/NET ASSETS</u>			
<u>FUND BALANCE</u>			
Reserved - Expendable Endowments	432,244		
Reserved - Non-Expendable Endowments	20,000		
Unreserved - Designated	825,000		
Unreserved - Undesignated	14,328		
Total Fund Balance	\$1,291,572		
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$1,458,182</u>		
<u>NET ASSETS</u>			
Invested in Capital Assets - Net of Related Debt		395,611	395,611
Restricted - Expendable Endowments		0	432,244
Restricted - Non-Expendable Endowments		0	20,000
Unrestricted		(252,392)	586,936
<u>TOTAL NET ASSETS</u>		<u>\$143,219</u>	<u>\$1,434,791</u>

See accompanying notes to the basic financial statements

FLINT DISTRICT LIBRARY  
STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCE/ STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund - Modified Accrual Basis	Adjustments (Note 11)	Activities - Full Accrual Basis
<u>REVENUES</u>			
Property Taxes	\$4,701,101	\$0	\$4,701,101
State Penal Fines	155,954	0	155,954
State Aid	125,100	0	125,100
Interest Income	35,198	0	35,198
Grants and Memorials	153,520	0	153,520
Gifts and Others	48,760	0	48,760
Library Fines, Fees and Other - Net	90,807	0	90,807
Miscellaneous	8,629	0	8,629
Total Revenues	<u>\$5,319,069</u>	<u>\$0</u>	<u>\$5,319,069</u>
<u>EXPENDITURES</u>			
Salaries and Wages	2,691,583	(17,094)	2,674,489
Employee Benefits and Taxes	916,476	0	916,476
Communications	65,705	0	65,705
Dues and Memberships	20,866	0	20,866
Grant and Memorial Expenditures	84,865	0	84,865
Insurance	93,512	0	93,512
Operating Supplies and Expenses	359,840	0	359,840
Printing, Publications and Copying	130,518	0	130,518
Professional Services	473,652	0	473,652
Rent	43,542	0	43,542
Repairs and Maintenance	240,917	0	240,917
Seminars, Conferences and Travel	27,124	0	27,124
Utilities	127,491	0	127,491
Capital Outlay		0	
Library Materials	304,589	0	304,589
Property, Plant and Equipment	150,583	0	150,583
Depreciation	0	70,363	70,363
Total Expenditures	<u>\$5,731,263</u>	<u>\$53,269</u>	<u>\$5,784,532</u>
<u>REVENUES (UNDER) EXPENDITURES</u>	<u>(\$412,194)</u>	<u>(\$53,269)</u>	<u>(\$465,463)</u>
<u>FUND BALANCE - BEGINNING OF YEAR - AS RESTATED</u>	<u>\$1,703,766</u>	<u>\$196,488</u>	<u>\$1,900,254</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$1,291,572</u>	<u>\$143,219</u>	<u>\$1,434,791</u>

See accompanying notes and auditor's opinion.

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Flint District Library (the "Library") is a tax-exempt, governmental entity. The accounting policies of the Library conform to generally accepted accounting principles applicable to governments. The following is a summary of the more significant policies:

REPORTING ENTITY

Pursuant to Proposal A, effective July 1, 1996, school districts in Michigan are not allowed to levy a millage for public libraries. The Library was, therefore, spun off from the Flint Public Schools (the "Schools") to operate as an independent body with its own board of trustees and its own tax levy. The Library has received voter approval to levy 2.9 mills. The Library became a separate entity as of July 1, 2000. Transfer of certain assets and liabilities was completed on June 16, 2004 between the Library and Schools. The Library is governed by a Board (the "Library Board"), which consists of seven members. The mayor appoints four members and the Flint Board of Education appoints three members.

The Library's borders encompass the City of Flint (the "City"). Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year.

The Library has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general-purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library has one fund, the General Fund, which is the Library's primary operating fund.

The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for 2005 expenditures.

In addition to presenting information for the General Fund, the statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

FINANCIAL STATEMENT AMOUNTS

CASH AND CASH EQUIVALENTS

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS (Continued)

RECEIVABLES AND PAYABLES

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1 based on the taxable valuation of the property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

PREPAID EXPENSES

The prepaid expenses reported on the balance sheet represent payments made in advance for 2005 expenditures.

CAPITAL ASSETS

Generally, the Library defines capital assets as assets having an initial cost of more than \$5,000. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Works of Art	N/A
Computers and Accessories	5 Years
Furniture and Fixtures	7 – 20 Years
Vehicles	6 Years

COMPENSATED ABSENCES

The Library reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick and vacation leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick and vacation leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Library's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

PROPERTY TAXES

The Library levies its property taxes on December 1 and the City of Flint collects its property taxes and remits them to the Library through February. The County purchases the delinquent real property taxes of the Library, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the Library for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS (Continued)

REVENUE RECOGNITION

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Library reports any donor-restricted contributions whose restrictions are not in the same accounting period as unrestricted support.

GRANTS AND MEMORIALS

Grant revenues are recorded as they are earned, according to the provisions of the grant. Normally, grant revenues are earned and received as the grant period progresses. The provisions of the grant determine the timing of revenue recognition. Grant expenses are recognized when incurred for a grant related obligation. Some variances may occur between grant revenue and expense due to timing differences.

DEFERRED REVENUE

Income is recognized as revenue as it is earned. Prepayments are recorded as deferred until the revenue is earned over the year.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

ACCOUNTING CHANGE

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments, issued in June 1999. While these statements are scheduled for a phased implementation according to the size of the governmental unit, Flint District Library has elected adoption, along with all related statements and interpretations, effective January 1, 2003. Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

- \* Management's Discussion and Analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.
- \* Financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided.
- \* Capital assets in the full accrual column of the statement of net assets, totaling \$395,611, were previously accounted for by the Library in the General Fixed Asset Account Group.

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS (Continued)

ACCOUNTING CHANGE (Continued)

- \* The governmental activities column includes compensated absences totaling \$252,392, previously reported in the General Long-Term Debt Account Group.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

2) DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Federal Deposit Insurance Corporation (FDIC) provides protection of the Library's deposits.

Deposits - The Board authorized the following financial institutions for the deposit of the Library's funds for the year ended June 30, 2004: Citizens Bank and Bank One.

At June 30, 2004, the carrying amount of the Library's deposits, on the books was \$1,275,230. The bank balance with financial institutions classified as to risk was as follows:

	BANK BALANCE
Insured (FDIC or FSLIC)	\$ 381,975
Uninsured – Uncollateralized	944,500
<u>TOTAL</u>	<u>\$ 1,326,475</u>

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

3) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Works of Art	\$200,000	\$0	\$0	\$200,000
Computers and Accessories	472,747	0	0	472,747
Furniture and Fixtures	260,927	0	0	260,927
Vehicles	91,625	0	0	91,625
Totals at Historical Cost	<u>\$1,025,299</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,025,299</u>
Less: Accumulated Depreciation				
Computers and Accessories	(341,840)	(43,387)	0	(385,227)
Furniture and Fixtures	(132,943)	(25,205)	0	(158,148)
Vehicles	(84,542)	(1,771)	0	(86,313)
Total Accumulated Depreciation	<u>(\$559,325)</u>	<u>(\$70,363)</u>	<u>\$0</u>	<u>(\$629,688)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$465,974</u>	<u>(\$70,363)</u>	<u>\$0</u>	<u>\$395,611</u>

Total depreciation expense for the year ended June 30, 2004 was \$70,363.

4) LONG-TERM DEBT

A summary of the debt outstanding at the Library is as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
<u>Governmental Activities:</u>				
Compensated Absences	<u>\$269,486</u>	<u>\$0</u>	<u>\$17,094</u>	<u>\$252,392</u>

The compensated absences represent the estimated liability to be paid employees under various sick and vacation pay contracts. Under the Library's various contracts, employees earn vacation and sick time based on time of service with the Library. The Library estimates that vacation pay of \$1,128 and sick pay of \$7,075 will be paid within the next year.

5) RESTATEMENT OF GOVERNMENT-WIDE NET ASSETS

For the fiscal year ended June 30, 2004, the Library implemented GASB Statement 34. As a result, capital assets and accumulated depreciation were recorded for the first time. Net assets were restated as of July 1, 2003 for the recording of accumulated depreciation. See July 1, 2003 balances illustrated in Note 3.

Prior to the year ended June 30, 2004, it was discovered that there were certain assets held in trust that were not properly recorded on the Library's books. To properly account for all Library assets a correction of prior period fund balance is necessary to restate.

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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5) RESTATEMENT OF GOVERNMENT-WIDE NET ASSETS (Continued)

Net Assets – July 1, 2003 - Before Restatement	\$ 1,353,814
Restatement – Correction of Prior Periods	
MMLC Endowment Fund	43,730
CFGF Endowment Fund	85,323
Library Building Fund	3,656
Goering Fund	34,776
Scott Memorial Fund	49,419
Library Special Fund (Curtis)	<u>133,048</u>
<u>NET ASSETS – JULY 1, 2003 – AS RESTATED</u>	<u>\$ 1,703,766</u>

6) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board at the function level. Any budgetary modifications may only be made by resolution of the Board.

The Library follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Director submits to the Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Library, transfer of appropriations may be made by the authorization of the Director. Such transfers of appropriations must be approved by the Board at its next regularly scheduled meeting.
- 5) The Director is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

7) RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for general liability, property casualty and health claims and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage.

8) PENSION PLAN

A) Defined Benefit Pension Plan

Library employees hired prior to July 1, 2000 are eligible to participate in the Michigan Public School Employees Retirement System (MPERS). The Plan Description, Funding Policy and Description of Other Post Employment Benefits follows:

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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8) PENSION PLAN (Continued)

A) Defined Benefit Pension Plan (Continued)

Plan Description

MPERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members, first hired on January 1, 1990 or later, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000, 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPERS for the year ended June 30, 2004 and 2003 was \$197,663, and \$198,547, respectively, equaled the required contributions for the year.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

B) Defined Benefit Pension Plan

Library employees hired on or after July 1, 2000 are eligible to participate in the Municipal Employees' Retirement System (MERS). The Plan Description and Funding Policy are as follows:

Plan Description

The Library's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent of a multiple-employer public employee retirement systems (PERS) administered by the MERS Retirement Board. Act No. 427 of the Public Act of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that included financial statements and requires supplementary information of MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan, 48917 or by calling (800) 767-6377.

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

8) PENSION PLAN (Continued)

B) Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

A basic plan member may retire at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 2 percent of a member's five-year final average compensation. Final average compensation is the employee's average salary over the last 5 years of credited service. Benefits fully vest on reaching 10 years of service.

The Library's current year covered payroll and its total current year payroll for all employees amounted to \$817,770 and \$575,358, respectively. All required contributions to the plan have been made by the employer.

Funding Policy

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of the projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MERS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. The MERS makes separate measurements of assets and pension benefit obligation for individual municipalities. The pension benefit obligation at December 31, 2003 (latest reporting date available) for the Library, determined through an actuarial valuation performed as of that date, was \$123,836. The benefit obligation is for vested and nonvested current employees. The Library's net assets available for benefits on that date (valued at cost) were \$144,447 leaving under funding of \$20,611. The Library made contributions of \$60,110 for the fiscal year ended June 30, 2004. The investment return rate and pay increase assumption used in making the actuarial valuation were 8% and 4.5%, respectively. The Library funding policy is to contribute annually an amount sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Library may determine to be appropriate. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligations.

Historical trend information showing the MERS's progress in accumulating sufficient assets to pay benefits when due is presented in the December 31, 2003 comprehensive annual financial report. Two year historical trend information is as follows:

VALUATION DATE	NET ASSETS AVAILABLE FOR BENEFITS	PENSION BENEFIT OBLIGATION	PERCENT FUNDED	ASSETS IN EXCESS OF PENSION BENEFIT OBLIGATION	
				AMOUNT	AS A PERCENT OF COVERED PAYROLL
12-31-02	\$ 48,457	\$ 71,309	147%	\$ (22,852)	0%
12-31-03	123,836	144,447	117%	(20,611)	0%

9) FUND BALANCE DESIGNATED

Fund balance designations represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. The designation of fund balance at June 30, 2004 is comprised of the budget stabilization in the amount of \$825,000. The Flint District Library Board policy III.4.1 requires the establishment and maintenance of a three-month operating reserve. At June 30, 2004, two months of the three-month reserve has been established.

FLINT DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

10) RESTRICTED NET ASSETS

Restricted net assets at June 30, 2004 are comprised of the following:

	<u>Expendable Endowment</u>	<u>Non-Expendable Endowment</u>	<u>Total</u>
MMLC	\$102,858	\$0	\$102,858
CFGF	128,487	0	128,487
Library Building Fund	3,656	0	3,656
Goering Fund	34,776	0	34,776
Scott Memorial Fund	29,419	20,000	49,419
Library Special Fund (Curtis)	133,048	0	133,048
<u>TOTAL</u>	<u>\$432,244</u>	<u>\$20,000</u>	<u>\$452,244</u>

11) RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis \$1,291,572

Amounts Reported in the Statement of Net Assets Are

Different Because:

Capital Assets are Not Financial Resources, and are Not  
Reported in the Funds 395,611

Compensated Absences are Included as a Liability (252,392)

NET ASSETS OF GENERAL FUND - FULL ACCRUAL BASIS \$1,434,791

Net Changes in Fund Balances - Modified Accrual Basis (\$412,194)

Amounts Reported in the Statement of Activities Are

Different Because:

Capital Outlays are Reported as Expenditures in the Statement of  
Revenue, Expenditures, and Changes in Fund Balance; in the Statement of  
Activities, These Costs are Allocated Over Their Estimated Useful Lives  
as Depreciation:

Depreciation (70,363)

Decrease in the Accrual for Long-Term Compensated Absences Reported  
as an Expenditure in the Statement of Activities, but not in the Fund  
Statements 17,094

CHANGES IN NET ASSETS OF GENERAL FUND - FULL ACCRUAL BASIS (\$465,463)

REQUIRED  
SUPPLEMENTARY  
INFORMATION

FLINT DISTRICT LIBRARY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Property Taxes	\$4,625,000	\$4,625,000	\$4,701,101	\$76,101
State Penal Fines	150,000	150,000	155,954	5,954
State Aid	120,000	120,000	125,100	5,100
Interest Income	30,000	30,000	35,198	5,198
Grants and Memorials	0	0	153,520	153,520
Gifts and Other	0	0	48,760	48,760
Library Fines, Fees and Other - Net	55,000	55,000	90,807	35,807
Miscellaneous Revenue	2,500	2,500	8,629	6,129
Total Revenues	<u>\$4,982,500</u>	<u>\$4,982,500</u>	<u>\$5,319,069</u>	<u>\$336,569</u>
<u>EXPENDITURES</u>				
Salaries and Wages	2,636,118	2,636,118	2,691,583	55,465
Employee Benefits and Taxes	942,265	942,265	916,476	(25,789)
Communications	42,866	42,866	65,705	22,839
Dues and Memberships	100,000	100,000	20,866	(79,134)
Grant and Memorial Expenditures	0	0	84,865	84,865
Insurance	99,000	99,000	93,512	(5,488)
Operating Supplies and Expenses	352,500	372,500	359,840	(12,660)
Printing, Publications and Copying	130,000	132,000	130,518	(1,482)
Professional Services	245,000	417,000	473,652	56,652
Rent	43,550	43,550	43,542	(8)
Repairs and Maintenance	237,000	247,000	240,917	(6,083)
Seminars, Conferences and Travel	15,000	15,000	27,124	12,124
Utilities	100,000	100,000	127,491	27,491
Capital Outlay				
Library Materials	275,000	275,000	304,589	29,589
Property, Plant and Equipment	166,427	185,427	150,583	(34,844)
Total Expenditures	<u>\$5,384,726</u>	<u>\$5,607,726</u>	<u>\$5,731,263</u>	<u>\$123,537</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(\$402,226)</u>	<u>(\$625,226)</u>	<u>(\$412,194)</u>	<u>\$213,032</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>\$1,703,766</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$1,291,572</u>	



*Lewis & Knopf, CPAs, P.C.*

"Serving You with Trust and Integrity"

August 30, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of  
Flint District Library

We have audited the financial statements of the governmental activities of Flint District Library, as of and for the year ended June 30, 2004, which collectively comprise the Flint District Library's basic financial statements and have issued our report thereon dated August 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Flint District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Flint District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the finance committee, management and federal awarding agencies and pass-through entities and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*  
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS